

# Memorandum

To: Panel Members Date: September 26, 2001

From: Charles Rufo, Manager  
Peter DeMauro, General Counsel File: E\*TRADE130agr

Subject: One-Step Agreement for **E\*TRADE Group, Inc.**  
www.etrade.com

## **CONTRACTOR:**

- Training Project Profile: Retraining: companies w/out-of-state competition
- Legislative Priorities: Moving to a High Performance Workplace
- Type of Industry: Finance and Insurance
- Repeat Contractor: No
- Contractor's Full Time Employees:
  - Company Wide: 3,837
  - In California: 1,924
- Fringe Benefits: No
- Union Representation: No
- Name and Local Number of Union representing workers to be Trained: N/A

## **CONTRACT:**

- Program Costs: \$354,442
- Substantial Contribution: \$0
- Total ETP Funding: \$354,442
- In-Kind Contribution: \$491,511
- Reimbursement Method: Fixed-Fee
- County(ies) Served: Sacramento
- Duration of Agreement: 24 Months

**SUBCONTRACTORS:**

None

**THIRD PARTY SERVICES:**

None

**NARRATIVE:**

This project was an ETP marketing referral to the Panel.

E\*TRADE Group, Inc. was founded as Trade Plus in 1982. The current name was adopted in 1991 and the company became a publicly traded in 1996. E\*TRADE Group, Inc. was incorporated in Delaware, and is headquartered in Menlo Park, California. Other California sites are located in Rancho Cordova and Huntington Beach; however, all training will be conducted at the Rancho Cordova facility.

E\*TRADE Group, Inc. has two facilities (Rancho Cordova and Menlo Park) that support the nationally distributed online customer base (over 90 percent of E\*TRADE Group, Inc.'s customers are located outside of California). These two facilities are eligible for standard retraining under Title 22, California Code of Regulations, Section 4416(a)(3,4), which states in part, "...out-of-state competition exists if the individual function and/or unit of a company...provides a service out-of-state; and/or provides a service in the state in competition with providers of the same service which are located outside of the state...." The two facilities are eligible for the internet programming, application development, call center-based customer support, account and fiscal management, and related financial and internal support functions at each of the locations.

E\*TRADE® offers its customers online personal financial services, investing, banking, research and educational tools, and customer service. E\*TRADE also offers automated order placement and execution, financial products and services that can be personalized, including portfolio tracking, charting and quote applications, "real-time" market commentary and analysis, news, professional research reports and other information services. Products include mutual funds, (including proprietary mutual funds), option trading, bond trading, banking, automated teller machine services, and access to participate in initial public offerings. Services are provided 24 hours a day, seven days a week by means of the Internet, automated telephone service, direct modem access, internet-enabled wireless devices, and live telephone support.

E\*TRADE serves customers through branded sites in Australia, Canada, Denmark, Hong Kong, Israel, Japan, Korea, New Zealand, Norway, South Africa, Sweden, the United Kingdom and the United States. Based on its acquisition of TIR Holdings and its 600-plus institutional clients worldwide, E\*TRADE has built the first global cross-border trading network for online investors, which will make trading in foreign securities accessible to retail, corporate, and institutional investors alike.

In addition, E\*TRADE has made several strategic acquisitions since 1997 which provide key competitive advantages in the race to capture and develop the core financial relationship with consumers. Some of these acquisitions include Web Street, LoansDirect, VERSUS Technologies, Telebank, ShareData, Card Capture Services and OptionsLink. Although these acquisitions have helped E\*TRADE achieve its goal, they have also changed the skill and job expectations for many associates.

**NARRATIVE: (continued)**

The Internet, or on-line brokerage industry, has changed the way brokerage firms are doing business. There are 110 on-line brokerages doing business in the United States. E\*TRADE's major competitors are Fidelity Investments (Boston MA), CSFB Direct (Jersey City, NJ.), TD Waterhouse (New York, NY.), Deutsche Bank AG (Hamburg Germany) and Merrill Lynch Direct (New York, NY). This is a borderless industry and as such, E\*TRADE must be the most efficient, knowledgeable and professional brokerage in the business to stay ahead of the competition.

ETP funding will assist E\*TRADE to better train associates to meet these expectations through classroom instruction, cross training, and web based training. E\*TRADE has invested in a new training facility and information system to streamline products and enhance customer relationships using a Customer Relationship Management (CRM) model. The training program will help the company transition to a high performance work place by focusing on product knowledge and by offering Continuous Improvement courses. ETP funding will also allow the training program to expand the depth of its curriculum, to create individual career paths, and to encourage self-improvement. E\*TRADE's overall goal is to train associates to be problem solvers, learn how to cross-sell their products and most importantly, build relationships with customers.

This project will retrain 327 financial service associates, trainers, quality specialists, supervisors, and specialists in JOBS #1 and #2. These retrainees will receive 40 hours of class/lab training in Continuous Improvement skills, and 10 hours of class/lab and 30 hours of computer based training (CBT) in Business Skills. The Continuous Improvement training will focus on problem solving techniques such as Bank Products, Active Trader Buying Power, Trade Inquiry Review, and Customer Relationship Management. Retraining will also enhance their decision-making skills in classes such as Stocks vs. Bonds, QM Tier Review, Tax Time, Bank Escalation Procedures, and New Product Offering. The Business Skills training will focus on New Product Training, Conflict Management, Building a High Performance Workplace, Leadership in the New Economy, People Management (Communication, Teamwork, Motivation), and Project Management.

JOB #3 retrainees, consisting of 30 financial service associates, will receive 50 hours of class/lab training in continuous improvement skills, and 30 CBT hours of Business skills training. In addition, these employees will receive 80 class/lab hours of Business Skills-Broker Training. The retrainees in this JOB have recently received their broker's license. In order to receive the license, associates must learn federal rules and regulations regarding the stock market. The ETP-funded training will instruct newly licensed associates in the standards established by E\*TRADE and the new trading systems. For instance associates will learn to place stock orders and calculate buying power using new screens and functions. These trainees have not had access to screens to manipulate orders and perform trading functions. This training provides career advancement opportunities for these associates. Thirteen project coordinator retrainees in JOB #4 will receive 8 hours of class/lab training and 40 hours of CBT training in business skills. All training and administration will be provided by E\*TRADE staff.

**Supplemental Nature of Training**

To keep up with the company's explosive growth, E\*TRADE developed and implemented a training program for new hire employees. Currently, new employees attend a four-week training segment consisting of three weeks in the classroom and one week of on the job training. Training consists of market basics (basic margin, options, bonds, trading, Mutual Funds, IRA, etc.), and E\*TRADE systems.

**NARRATIVE: (continued)**

E\*TRADE's cost for new hire training is estimated at \$1,920 per associate, based upon an average wage of \$12 an hour for 160 hours of training.

The company has also invested in numerous systems such as a customer management system, which includes an online policies and procedures manual for an estimated cost of \$17 million over the past two years (figure includes software, hardware such as a call-base routing system and consulting costs).

Following ETP training, E\*TRADE will continue training new and existing staff in customer management system and skills to maintain a high performance workplace.

**In-Kind Contribution**

The company estimates training and training-related costs not covered by ETP funds to be \$5,000. These costs include classroom material and software. The Contractor estimates that trainee wages to be paid during ETP-training will be \$486,511, for a total in-kind contribution of \$491,511.

In addition, the Rancho Cordova site has recently built a state of the art training facility and computer lab to deliver the planned training material over the next several years. The construction of the Learning Center cost \$420,000 plus additional costs for the Audio/Visual equipment. E\*TRADE has also partnered with SmartForce to create an advanced learning web based training platform called ELearn, costing \$1.08 million over the next three years (dollar amount is part of the \$17 million customer management system estimate). This is the software being used for the Business Skills Computer Based Training.

**COMMENTS:**

**Request for Waiver to Turnover Rate:**

E\*TRADE's turnover rate in the state of California for the calendar year 2000 was 24 percent. In accordance with Title 22 California Code of Regulations, Section 4417. Secure Job, "The Panel may accept a higher than 20 percent turnover rate if...industry data supports a higher turnover rate". E\*TRADE representative state their company's industry is a hybrid (call-center, financial services, and e-commerce). E\*TRADE officials state that this type of industry is new and no specific data exists to support the turnover rate for this hybrid industry. The most relevant turnover data they could provide is for call center services. Data from the 1999 Call Center Benchmark Report, Purdue University Center for Customer Driven Quality states "Inbound centers have an average annual turnover of 26 percent for full-time representatives". Additionally, recent research by Nextera Enterprises, a management consulting firm, shows that turnover rates at call centers is 31 percent annually. Due to the nature of the call center environment within E\*TRADE, they request a waiver to the 20 percent turnover rate requirement because industry data supports an average turnover rate of 26-31 percent.

The ETP program will allow for training and cross-training of employees so that they may perform many functions. Training will reduce the possibility of staff becoming displaced and will also provide opportunities for career advancements. Staff recommends that the Panel waive the turnover rate requirement for these reasons.

**COMMENTS: (continued)**

Although staff has added contract language to the agreement that the Contractor will earn the final 25 percent progress payment for each trainee only if the Contractor achieves an average turnover rate of 20 percent or less for the last twelve months of the Agreement, E\*TRADE asserts that a 24 percent turnover rate is average in the industry. A report of the turnover rate will be submitted with the final agreement closeout invoice.

**Senior Policy Executive/Managers:**

No senior level managers or executive staff who set company policy are included in the Agreement.

**PROPOSED ACTION:**

Staff recommends that the Panel approve this Agreement and the turnover waiver request, if funding is available and the project meets Panel priorities. Company officials state that the proposed training will provide the workforce with the continuous improvement and business skills necessary to move toward higher performance as part of the company's efforts to become a leader in the world trade markets.

**TRAINING PLAN:**

Group/ Trainee Type	Types of Training	No. to be Retained	No. Class / Lab Hrs.	No. CBT Hours	Cost Per Trainee	Hourly Wage after 90 days																
1 – 4 Retrainee	Continuous Improvement Business Skills	370	8-130	30-40	\$424 - \$1,930	\$12.00 - \$29.16																
<b>Wages After 90-Day Retention:</b>  <table><thead><tr><th><u>Occupation</u></th><th><u>Wage Range</u></th></tr></thead><tbody><tr><td>Financial Services Associate 1</td><td>\$12.00 – \$18.25</td></tr><tr><td>Financial Services Associate 2</td><td>\$12.76 — \$21.05</td></tr><tr><td>Trainer</td><td>\$19.31 – \$29.16</td></tr><tr><td>Quality Specialist</td><td>\$19.31 – \$29.16</td></tr><tr><td>Supervisors</td><td>\$19.31 – \$29.16</td></tr><tr><td>Specialist</td><td>\$16.81 – \$28.56</td></tr><tr><td>Project Coordinator</td><td>\$18.79 – \$25.44</td></tr></tbody></table>  <b>Health Benefits used to meet ETP minimum wage:</b> N/A			<u>Occupation</u>	<u>Wage Range</u>	Financial Services Associate 1	\$12.00 – \$18.25	Financial Services Associate 2	\$12.76 — \$21.05	Trainer	\$19.31 – \$29.16	Quality Specialist	\$19.31 – \$29.16	Supervisors	\$19.31 – \$29.16	Specialist	\$16.81 – \$28.56	Project Coordinator	\$18.79 – \$25.44	<b>Range of Hourly Wages:</b> \$12.00 - \$29.16			
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<b>Prevalent Hourly Wage:</b> \$12.00																						
<b>Average Cost Per Trainee:</b> \$958																						

Training Data									Payment Schedule				
1	2	3	4	5	6	7	8	9	10	11	12	13	14
Job	Occupations	Type of Training	No. Retain	Cls/Lab Video-conf. Hours	CBT Hours	SOST Hours	Cost Per Trainee	Total SOST Trainer Hrs.	Hrs. to Enroll/Pay 1 Enroll	Pay 2 Compl	Pay 3 Hired	Pay 4 After 90 Days	Wage After Retention
1	Financial Service Associate 1 & 2	Direct-Employer Retrainee	250	50	30		\$890		8	\$222.50	\$445.00	\$222.50	\$12.00 - \$21.05
687		<i>Business Skills</i>		10	30								
		<i>Continuous Improvemt</i>		40									
2	Trainers, Quality Specialists, Supervisors, Specialists	Direct-Employer Retrainee	77	50	30		\$890		8	\$222.50	\$445.00	\$222.50	\$16.81 - \$29.16
687		<i>Business Skills</i>		10	30								
		<i>Continuous Improvemt</i>		40									
3	Financial Service Associate 2	Direct-Employer Retrainee	30	130	30		\$1,930		8	\$482.50	\$965.00	\$482.50	\$12.76 - \$21.05
687		<i>Continuous Improvemt</i>		50									
		<i>Business Skills</i>		80	30								
4	Project Coordinator	Direct-Employer Retrainee	13	8	40		\$424		8	\$106.00	\$212.00	\$106.00	\$18.79 - \$25.44
687		<i>Business Skills</i>		8	40								

**Contract Totals**

<b>Program Cost</b>		\$354,442	<b>Total to be Retained</b>	370
<b>Substantial Contribution</b>	(-)	\$0		
<b>Multiple-Empl. Support</b>	(+)	\$0		
<b>TOTAL ETP Funding</b>	(=)	\$354,442		

Turnover Rate	% of Mgrs. & Sups. to be trained	Health Benefits Inc. in Wage?
24.0%	8.0%	No

Location of Training: All training will be provided at the Contractor's facility in Rancho Cordova during regular work hours.

*Computer Based Training must be provided at employer site or other approved training site identified as follows: E\*TRADE Securities, 10951 White Rock Road, Rancho Cordova, CA.*

Ratios: The ratio of trainers to trainees for class/lab and videoconference training shall not exceed 1:20 for retrainees.

If Health Benefits is YES, please explain: NA

Other notes: